

## CHAPTER XIV

# THE MONEY SUPPLY, CREDIT AND THE BANKING SYSTEM

### 1. THE INCREASE IN THE MONEY SUPPLY

THE AVERAGE LEVEL of the money supply<sup>1</sup> in 1957 was IL. 91 million or 19.4 per cent higher than in 1956. In 1956 its average level exceeded that of 1955 by 17.9 per cent.

In spite of the large increase in the average annual level, the supply of money was expanded by only 11.4 per cent over 1957 as a whole (from January to December), a low rate if compared with previous years (see Table XIV-1). In 1957, the high average level of the money supply was partly the result of its substantial expansion in the last months of 1956. This to a large extent swelled the money supply towards the end of that year, while it only slightly affected its average level.

In 1957, the seasonal fluctuations of the money supply were similar to those in 1954 and 1955, when the increase over the first half of the year exceeded that over the second half. In 1956, there was a departure from this seasonal variation, due to the expansion of credit to the Government during the Sinai campaign.

Of the IL. 58.9 million increase in the supply of money, demand deposits accounted for IL. 56.3 million, while the amount of cash held by the public rose by only IL. 2.6 million. As a result, there was a decline in the percentage share of cash held by the public within the total money supply. This share fell to 40 per cent in 1957 from 44 per cent in 1956—a particularly high rate indicating the public's temporary preference for holding cash instead of deposits in the period following the Sinai campaign. The decline in 1957 is the continuation of a tendency which has prevailed in this country since 1953. It was interrupted in 1955, possibly owing to the defence situation prevalent at that time. The tendency towards an increase in the share of deposits was due to the development of the banking system and also to the growing habit of the public at large to keep its money in banks. The growth in the number of bank accounts, at a rate exceeding that of the population increase, further confirms this trend.

The money supply is, of course, only a portion of the liquid assets held by the public. Other liquid assets held, even if less liquid, include time deposits,

<sup>1</sup> In Israel, money supply is defined to include cash held outside banking institutions and demand deposits of the public in Israel currency. It excludes demand deposits of the banking institutions themselves as well as those of the Government.

TABLE XIV-1  
*The Money Supply, 1948-1957*  
 (millions of IL.)

Period	Currency held by the public	Demand deposits	Total money supply	Increase or decrease (-) over the preceding period	
				Million IL.	Percentages
1948	30.6	70.2	100.8	—	—
1949	43.3	96.9	140.2	39.4	39.1
1950	64.8	125.0	189.8	49.6	35.4
1951	91.0	150.5	241.5	51.7	27.2
1952	106.0	151.2	257.2	15.7	6.5
1953 <sup>a</sup>	128.0	192.3	320.3	63.1	24.5
1953 <sup>b</sup>	128.0	162.1	290.1	—	—
1954	146.6	201.9	348.5	58.4	20.1
1955	172.5	247.2	419.7	71.2	20.4
1956	228.3	289.0	517.3	97.6	23.3
1957	230.9	345.3	576.2	58.9	11.4
1957 January	227.5	300.8	528.3	11.0	2.1
February	229.1	308.4	537.5	9.2	1.7
March	227.4	310.9	538.3	0.8	0.1
April	229.6	324.5	554.1	15.8	2.9
May	227.9	331.8	559.7	5.6	1.0
June	229.3	335.9	565.2	5.5	1.0
July	228.2	336.2	564.4	- 0.8	- 0.1
August	228.5	342.4	570.9	6.5	1.2
September	235.8	345.1	580.9	10.0	1.8
October	234.8	337.6	572.4	- 8.5	- 1.5
November	237.0	339.4	576.4	4.0	0.7
December	230.9	345.3	576.2	- 0.2	—

SOURCE: Bank of Israel.

<sup>a</sup> Old series—demand deposits included under foreign currency deposits.

<sup>b</sup> New series—demand deposits refer to deposits held in Israel currency only.

securities which have a stable market value, as well as negotiable commercial bills and open credits of suppliers. This report will be confined to the discussion of money supply only, the available information on the fluctuations of the other liquid assets being limited.

Only a partial indicator is available on the turnover velocity of the money supply which is the ratio of the average amount of demand deposits in banking institutions to the sum total of debits. This turnover velocity may serve as an indicator of the transaction velocity of deposits, on the assumption that the

TABLE XIV-2

*Percentage Share of Currency in Circulation  
within the Money Supply, 1954-1957*

<i>Period</i>	<i>Percentages</i>
Average 1954	42.7
Average 1955	41.6
Average 1956	43.4
Average 1957	41.1
1956 December	44.1
1957 January	43.1
February	42.6
March	42.2
April	41.4
May	40.7
June	40.6
July	40.4
August	40.0
September	40.6
October	41.0
November	41.1
December	40.1

number of times cheques have changed hands before being sent for collection remained unchanged. In this respect, turnover velocity was stable between 1954 and 1956. Insofar as it is assumed that no change occurred in the turnover velocity of deposits relative to cash, it may be inferred that the turnover velocity of the money supply has remained virtually unchanged in recent years.

TABLE XIV-3

*Turnover Velocity of Bank Deposits, 1954-1957*  
(*millions of IL.*)

	<i>1954</i>	<i>1955</i>	<i>1956</i>	<i>1957</i>
Average amount of demand deposits in Israel currency	141.1	173.4	201.7	254.8
Total debits over the year, in Israel currency	2,660.4	3,401.7	3,787.4	4,682.1
Turnover velocity=debits : deposits	18.9	19.6	18.8	18.4

## 2. DIRECT FACTORS CAUSING CHANGES IN THE MONEY SUPPLY<sup>1</sup>

The expansion of bank credit to the Government and to the public were the direct factors principally responsible for the increase of IL. 91 million in the average level of the money supply. The increase in the public's time deposits exerted a restraining influence on the money supply. These factors are summarized in Table XIV-4.

TABLE XIV-4

*\*Direct Factors Causing the Increase in the Money Supply,<sup>a</sup> 1957  
(millions of IL.)*

	<i>Increase or decrease (-)</i>	
	<i>Average</i>	<i>End of period</i>
Expansion of credit to the Government	79.0	53.8
Expansion of credit to the public	44.1	58.8
Increase in deposits of the public <sup>b</sup>	-34.7	-38.6
Investments of banking institutions <sup>c</sup>	6.3	5.8
Decline in balances of foreign exchange	- 0.1	-17.6
Balances in transit	0.4	- 1.4
Other factors	- 4.1	- 1.9
Total increase in the money supply	90.9	58.9

<sup>a</sup> For a more detailed breakdown see Table XIV-5.

<sup>b</sup> Foreign currency accounts and time deposits.

<sup>c</sup> Non-governmental securities and immovable assets.

A separate section will be devoted to the discussion of each of the factors making for the increase in the money supply. Since the discussion on credit granted by the banking system involves several other aspects, the development of bank credit in 1957 will be analyzed later in this Chapter.

<sup>1</sup> In the consolidated balance sheet of the banking system, money supply is shown as a liability. Changes in money supply can, therefore, be interpreted in the light of the changes in the other items of the balance sheet, which are considered as direct factors causing the changes in the supply of money.

### 3. THE ACCUMULATION OF FOREIGN EXCHANGE<sup>1</sup>

In 1957, the average level<sup>2</sup> of net balances of foreign exchange held by the banking system was similar to that of 1956. It thus did not affect the change in the average level of the money supply.

Allowing for monthly fluctuations, the balances of foreign exchange rose between January and August 1957 by IL. 21.8 million. They fell, however, by IL. 41.2 million during the September–November period to rise again by only IL. 1.8 million in December. As a result, foreign exchange assets held by the banking system were IL. 17.6 million less at the end of 1957 than at the end of 1956. In other words, the Israel economy reduced the supply of money by IL. 17.6 million, buying foreign exchange for this amount from the banking system. It should be pointed out that in 1957, for the first time in recent years, the balances of foreign exchange fell towards the end of the year as compared with the previous year, thus leading to a contraction of the money supply. The balances of foreign exchange rose in 1954, 1955 and 1956, when they caused an increase in the money supply.

The separation of the Government's foreign exchange transactions from those of the public shows that Government purchases of foreign exchange from the banking system against Israel currency amounted to IL. 93 million. The non-government sector sold exchange to the banking system against Israel currency for IL. 75 million.

For the purpose of this analysis, public institutions, such as the national institutions and Government corporations, are included in the "public". Transfer payments of the United Jewish Appeal are thus booked in the "public's" account<sup>3</sup>. There is, furthermore, no clear dividing line between the financial transactions of the Government and those of the non-government sector. This is particularly true for import operations, where the choice of the implementing body is frequently accidental.

<sup>1</sup> The term "accumulation" of foreign exchange as a cause of changes in the money supply has been introduced in this report for the first time and replaces the term "conversion" of foreign exchange used in previous reports. Foreign exchange appears in the conversion account only when sold to the banking system against Israel currency. The term accumulation appears when the exchange is deposited with the banking system, even if held by the client as a foreign exchange deposit, say in a "PAMAZ" or in a "PAZAK" account. The new term has been introduced because it conforms with the practice accepted for the balance of payments.

<sup>2</sup> Based on monthly data.

<sup>3</sup> Apart from the Consolidation Loan received in 1956 by the Jewish Agency on behalf of the Government, and which was partly repaid in 1957. Foreign exchange receipts for 1956 and payments to the value of \$21 million (IL.31.5 million) for 1957 have been included in the account of the Government.

#### 4. INVESTMENT BY BANKING INSTITUTIONS

The average amount of investments made in 1957 by banking institutions exceeded that of the previous year by IL. 6.3 million.

In 1957 the investment of banking institutions in non-governmental securities was concentrated in August, when IL. 5.5 million were subscribed, mainly to the loan of the Keren Hayessod-U.J.A., which is government-guaranteed. Almost no investment was made in the other months, and during most of them, the investment portfolio of banking institutions even showed a decline as a result of sales to the public.

The amount of securities held by banking institutions at the end of the year was higher by IL. 2.9 million than in the same period in 1956. The same was true for investment in real assets, which rose at the end of 1957 by IL. 2.9 million over the end of the previous year.

#### 5. TIME DEPOSITS OF THE PUBLIC

The average level of the public's time and foreign exchange deposits was higher by IL. 34.7 million in 1957 than in 1956. According to definition, an increase in these deposits is a direct factor of the decline in the supply of money.

The rate of increase was uniform throughout the year. At the end of 1957, the sum total of these deposits was IL. 38.6 million higher than at the end of 1956.

Deposits other than demand deposits rose by 25 per cent in 1957, against an increase of only 19.5 per cent in demand deposits. There was, therefore a transition from demand deposits to other types of deposits.

It is not unlikely that the relatively important increase in time and other deposits of this type originated mostly in the savings promotion schemes operated by several banks. These schemes also enjoyed the encouragement given by the Ministry of Finance and the Bank of Israel through tax relief and through certain relaxations from the credit control regulations (see Chapter XV, Personal Saving). The sums deposited under these schemes rose by IL. 15 million. It is also probable that the rise at the end of 1956 in credit interest rates, paid in particular on time deposits, was due to the same factor which, in 1957, drew larger amounts to the banks than in other years. The substantial increase in foreign exchange deposits was the result of personal restitution payments from Germany, which recipients are now authorized to keep in the form of foreign exchange deposits. The majority of time and foreign exchange deposits have a relatively high liquidity as, for instance, time deposits may be withdrawn prior to due dates. There are reasons to believe that part of the increase in time deposits arises from the transfer of sums from inactive balances of demand deposits. Hence only part of the time deposits are actually less liquid than the money supply.

TABLE  
Consolidated Balances Sheet of  
(millions)

	1953 <sup>a</sup>	1954	1955	1956	1957	1957 January
<i>Credit to the public</i>						
Bank of Israel	—	—	15.7	35.1	51.6	32.7
Banking institutions	204.5	231.4	204.1	264.1	306.4	271.2
<b>Total (1)</b>	<b>204.5</b>	<b>231.4</b>	<b>255.8</b>	<b>299.2</b>	<b>358.0</b>	<b>303.9</b>
<i>Credit to the Government</i>						
Bank of Israel	133.5	133.5	171.1	236.7	271.3	241.0
Banking institutions	37.9	19.3	28.8	26.5	45.7	27.6
<b>Total (2)</b>	<b>171.4</b>	<b>152.8</b>	<b>199.9</b>	<b>263.2</b>	<b>317.0</b>	<b>268.6</b>
<i>Net balances of foreign exchange</i>						
Bank of Israel	8.0	53.5	83.5	92.4	82.8	93.9
Banking institutions	15.0	31.9	21.7	27.7	19.7	32.7
<b>Total (3)</b>	<b>23.0</b>	<b>85.4</b>	<b>105.2</b>	<b>120.1</b>	<b>102.5</b>	<b>126.6</b>
<i>Investments of banking institutions</i>						
Securities	5.5	7.8	9.0	14.4	17.3	14.5
Immovable assets	4.0	5.2	7.7	10.9	13.8	11.0
<b>Total (4)</b>	<b>9.5</b>	<b>13.0</b>	<b>16.7</b>	<b>25.3</b>	<b>31.1</b>	<b>25.5</b>
<i>less: Accounts of the public</i>						
Time deposits against guarantees, and deposits earmarked for the granting of loans	84.5	84.0	104.0	120.4	148.3	120.8
Foreign currency deposits	15.0	32.7	29.2	32.7	43.4	35.5
<b>Total (5)</b>	<b>99.5</b>	<b>116.7</b>	<b>133.2</b>	<b>153.1</b>	<b>191.7</b>	<b>156.3</b>
<i>Miscellaneous</i>						
Balances in transit	16.0	20.5	23.4	18.5	17.1	17.2
Other accounts (including own capital)	-34.8	-37.9	-48.1	-55.9	-57.8	-57.2
<b>Total (6)</b>	<b>-18.8</b>	<b>-17.4</b>	<b>-24.7</b>	<b>-37.4</b>	<b>-40.7</b>	<b>-40.0</b>
<b>The money supply</b> (1) + (2) + (3) + (4) - (5) + (6)	<b>290.1</b>	<b>348.5</b>	<b>419.7</b>	<b>517.3</b>	<b>576.2</b>	<b>528.3</b>

SOURCE: Bank of Israel.

<sup>a</sup> Part of the figures for 1953 are estimates. For further details see notes a and b to Table XIV-1.

## XIV-5

*the Banking System, 1953-1957*  
of IL.)

1957										
<i>Feb.</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>Sep.</i>	<i>Oct.</i>	<i>Nov.</i>	<i>Dec.</i>
26.1	22.4	24.0	23.6	25.4	24.4	28.2	35.6	37.7	47.9	51.6
271.4	284.7	284.4	291.0	292.9	295.8	301.5	302.5	305.3	307.7	306.4
297.5	307.1	308.4	314.6	318.3	320.2	329.7	338.1	343.0	355.6	358.0
250.2	229.9	241.7	242.0	256.9	250.9	248.2	253.6	263.9	268.3	271.3
28.9	53.9	40.8	41.8	41.6	40.5	39.3	38.5	40.9	45.4	45.7
279.1	283.8	282.5	283.8	298.5	291.4	287.5	292.1	304.8	313.7	317.0
99.3	95.6	104.5	113.8	104.9	109.7	116.9	110.6	91.9	82.6	82.8
36.7	30.7	37.6	28.0	23.3	28.3	25.0	22.1	21.7	18.1	19.7
136.0	126.3	142.1	141.8	128.2	138.0	141.9	132.7	113.6	100.7	102.5
14.3	14.2	14.1	14.3	13.9	14.0	19.5	18.2	17.2	17.6	17.3
11.1	11.3	11.7	11.8	11.9	12.0	12.2	12.5	12.8	13.2	13.8
25.4	25.5	25.8	26.1	25.8	26.0	31.7	30.7	30.0	30.8	31.1
124.8	126.8	129.8	131.2	132.9	135.0	138.5	141.8	143.7	145.2	148.3
34.7	36.1	37.4	37.9	39.3	38.8	41.8	40.3	41.1	42.1	43.4
159.5	162.9	167.2	169.1	172.2	173.8	180.3	182.1	184.8	187.3	191.7
15.2	15.8	19.1	18.4	22.4	18.4	17.5	26.7	23.2	21.2	17.1
-56.2	-57.3	-56.6	-55.9	-55.8	-55.8	-57.1	-57.3	-57.4	-58.3	-57.8
-41.0	-41.5	-37.5	-37.5	-33.4	-37.4	-39.6	-30.6	-34.2	-37.1	-40.7
537.5	538.3	554.1	559.7	565.2	564.4	570.9	580.9	572.4	576.4	576.2

TABLE XIV-6

*Net Balances of Foreign Exchanges with the Banking System, 1953-1957*  
(millions of IL.)

<i>End of period</i>				
<i>Period</i>	<i>Bank of Israel</i>	<i>Banking institutions</i>	<i>Total</i>	<i>Increase or decrease (-) over the previous period</i>
1953 <sup>a</sup>	8.0 <sup>b</sup>	15.0	23.0	—
1954	53.5	31.9	85.4	62.4
1955	83.5	21.7	105.2	19.8
1956	92.4	27.7	120.1	14.9
1957	82.8	19.7	102.5	-17.6
1957 January	93.9	32.7	126.6	6.5
February	99.3	36.7	136.0	9.4
March	95.6	30.7	126.3	- 9.7
April	104.5	37.6	142.1	15.8
May	113.8	28.0	141.8	- 0.3
June	104.9	23.3	128.2	-13.6
July	109.7	28.3	138.0	9.8
August	116.9	25.0	141.9	3.9
September	110.6	22.1	132.7	- 9.2
October	91.9	21.7	113.6	-19.1
November	82.6	18.1	100.7	-12.9
December	82.8	19.7	102.5	1.8

SOURCE: Bank of Israel.

<sup>a</sup> See note (a) to Table XIV-5.

<sup>b</sup> Balances of foreign exchange held by the issue department of the Bank Leumi Le-Israel B.M.

## 6. BALANCES IN TRANSIT

The average level of balances in transit was higher by IL. 0.4 million in 1957 than in 1956. Balances in transit rose over the first part of the year, to decline, however, by the end of 1957 to a point of IL. 1.4 million less than at the end of 1956. The reduction in those balances was largely the result of the improvement and amelioration in inter-bank clearance, introduced by the Bank of Israel in 1956.<sup>1</sup>

The arrangements for the completion of the new inter-urban clearing permitting a more rapid clearance of remittances, even for debits and credits made in different parts of the country, were completed at the end of 1957; this may lead to a reduction of the balances in transit. The new inter-urban clearing system came into force in the early part of 1958 (see Chapter XIX, The Activities of the Bank of Israel).

<sup>1</sup> See Annual Report for 1956, page 271.

TABLE XIV-7

*Deposits of the Public with Banking Institutions, 1953-1957**(millions of IL.)**End of period*

<i>Period</i>	<i>Deposits other than demand deposits</i>						<i>Total (2) to (6)</i>	<i>Total deposits (1) + (7)</i>
	<i>Demand deposits</i>	<i>Time deposits</i>	<i>Deposits against guaran- tees</i>	<i>Saving schemes</i>	<i>Deposits earmark- ed for the granting of loans</i>	<i>For- eign ex- change</i>		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1953 <sup>a</sup>	162.1	39.5	14.0	—	31.0	15.0	99.5	261.6
1954	201.9	45.0	11.8	—	27.2	32.7	116.7	318.6
1955	247.2	63.0	11.9	0.7	28.4	29.2	133.2	380.4
1956	289.0	62.8	13.4	11.4	32.8	32.7	153.1	442.1
1957	345.3	71.7	14.8	26.5	35.3	43.4	191.7	537.0
1957 January	300.8	62.9	13.3	12.6	32.0	35.5	156.3	457.1
February	308.4	64.6	15.1	13.3	31.8	34.7	159.5	467.9
March	310.9	65.1	14.7	14.6	32.4	36.1	162.9	473.8
April	324.5	65.9	14.9	16.0	33.0	37.4	167.2	491.7
May	331.8	67.0	14.3	17.6	32.3	37.9	169.1	500.9
June	335.9	68.5	13.5	18.8	32.1	39.3	172.2	508.1
July	336.2	68.1	12.9	20.6	33.4	38.8	173.8	510.0
August	342.4	66.7	13.1	21.9	36.8	41.8	180.3	522.7
September	345.1	67.6	14.9	22.9	36.4	40.3	182.1	527.2
October	337.6	67.3	15.9	23.9	36.6	41.1	184.8	522.4
November	339.4	68.8	15.1	25.1	36.2	42.1	187.3	526.7
December	345.3	71.7	14.8	26.5	35.3	43.4	191.7	537.0

SOURCE: Bank of Israel.

<sup>a</sup> See note (a) to Table XIV-5.

## 7. CREDIT TO THE GOVERNMENT

The average level of credit granted by the banking system to the Government rose in 1957 by IL. 79 million over that of 1956. This was partly the result of the large expansion in bank accommodation which occurred in the last months of 1956, owing to the Sinai campaign. By the end of 1957, Government indebtedness had risen by IL. 53.8 million over the end of 1956, whereas during 1956, Government liabilities to the banking system increased by IL. 63.3 million.

Whereas, in 1956, credit to the Government was expanded only by the Bank of Israel, about one-third of the expansion in 1957 was made by banking institutions.<sup>1</sup> This increased the current advances to the Government by IL. 16 million,

<sup>1</sup> Most of this credit was the result of the foreign banks' lending to banking institutions the sum of IL.17.1 million in foreign exchange. This was intended as loans to the Government against future income from Reparations.

**TABLE XIV-8**  
**Government Indebtedness to the Banking System, 1953-1957**  
*(millions of IL.)*

End of period	Bank of Israel <sup>a</sup>				Banking institutions <sup>b</sup>				Total Government indebtedness
	Current credit (net)	Long-term credit & securities	Less: capital accounts	Total	Current credit (net)	Long-term credit & securities	Less: deposits earmarked for loans to the public (net)	Total	
1953 <sup>c</sup>	—	133.5 <sup>d</sup>	—	133.5 <sup>d</sup>	12.0	33.8	7.9	37.9	171.4
1954	10.4	122.6	- 0.5	133.5	9.5	25.4	15.6	19.3	152.8
1955	32.5	138.5	- 0.1	171.1	17.1	22.6	10.9	28.8	199.9
1956	89.3	155.7	8.3	236.7	12.5	32.4	18.4	26.5	263.2
1957	68.6	217.8	15.1	271.3	28.5	32.7	15.5	45.7	317.0
1957 January	93.4	155.6	8.0	241.0	11.8	33.6	17.8	27.6	268.6
February	103.2	155.4	8.4	250.2	12.1	31.4	14.6	28.9	279.1
March	17.7	219.0	6.8	229.9	36.2	31.7	14.0	53.9	283.8
April	32.7	217.7	8.7	241.7	23.7	31.5	14.4	40.8	282.5
May	32.8	219.5	10.3	242.0	24.5	31.2	13.9	41.8	283.8
June	48.4	219.2	10.7	256.9	23.8	31.2	13.4	41.6	298.5
July	42.5	219.0	10.6	250.9	22.8	31.3	13.6	40.5	291.4
August	41.3	218.8	11.9	248.2	22.8	31.2	14.7	39.3	287.5
September	47.6	218.8	12.8	253.6	21.5	31.3	14.3	38.5	292.1
October	59.1	218.2	13.4	263.9	22.5	32.5	14.1	40.9	304.8
November	65.6	217.8	15.1	268.3	26.9	32.2	13.7	45.4	313.7
December	68.6	217.8	15.1	271.3	28.5	32.7	15.5	45.7	317.0

SOURCE: Bank of Israel.

<sup>a</sup> Bank of Israel:

Current credit (net) refers to advances to the Government, loans to the Government in foreign currency, other Government accounts and to deposits with local banking institutions. Less: Government deposits, Government deposits in foreign currency, deposits of Government institutions, deposits of international financial institutions and to deposits of other institutions.

Long-term credit and securities refer to treasury bills, land bills, Government bonds and promissory notes against coin in circulation.

Capital accounts refer to the paid up capital, reserves and other accounts (liabilities), less: Government promissory notes for the capitalization of the Bank, other accounts (assets).

<sup>b</sup> Banking institutions:

Current credit (net) refers to Government loans, loans for the subscription of Government bonds, less: demand deposits of the Government, Government deposits in connection with the subscription to Government loans.

Long-term credit and securities refer to the 3% Government loan and to other Government bonds. Deposits earmarked for loans to the public (net) refer to time deposits of the Government, to deposits earmarked for special purposes and to Government deposits from the Development Budget, less: loans from Government deposits.

<sup>c</sup> See note (a) to Table XIV-5.

<sup>d</sup> Treasury bills and land bills of the issue department of the Bank Leumi Le-Israel B.M.

while the outstanding balance of net Government deposits with banking institutions (less loans granted out of these deposits) fell by IL. 3 million during this period. Government indebtedness to the banking institutions rose mainly in March, upon the reduction of part of their liabilities to the Bank of Israel. Most of the expansion in Government indebtedness took place during the first and last quarters of the year (see Chapter XVII, The Financial Transactions of the Government).

The Government's current liabilities to the Bank of Israel were reduced, while there was an increase in long-term credit. The reason for this was the promulgation, in March 1957, of the law of the Defence Advance. This law converted the current debt of IL. 65 million into a long-term loan to be repaid within 15 years. The paid up capital of the Bank was increased over the year, and consequently this Government liability was reduced.

It should also be remembered that in 1957, the Government purchased IL. 44 million in foreign exchange for payments to be made abroad. Part of the increase in Government indebtedness to the banking system is consequently not reflected in the expansion of the supply of money, but rather by the corresponding reduction in the balances of foreign exchange.

## 8. CREDIT TO THE PUBLIC

In 1957, the average level of bank credit extended to the public in Israel currency and in foreign exchange was IL. 44.1 million higher than in 1956. Bank accommodation to the public rose by IL. 58.8 million over the year, or by about 20 per cent, compared with 17 per cent in 1956, with 10.5 per cent in 1955 and 13 per cent in 1954. Of the additional credit granted in 1957, IL. 16.5 million were granted by the Bank of Israel in the form of rediscounts, while IL. 42.3 million were granted by banking institutions.

Apart from February, bank credit expanded during all the months. During the first four months of the year, the monthly rate of increase was 0.8 per cent. The average rate of increase rose to 1.7 per cent in May–August to attain a monthly rate of 2.1 per cent during the remaining months of the year. The differences in these rates of increase were due to the reduction by the Bank of Israel in the first part of the year of outstanding rediscounts; during the latter part of the year they were increased. The pace of credit expansion by banking institutions remained uniform over the year.

In addition to bank accommodation, credit was extended to the public from Government funds through banking institutions. This type of credit has no direct impact on the total supply of money, as banking institutions hold blocked Government deposits against it.

Short-term credit granted to importers against special Government deposits<sup>1</sup>

<sup>1</sup> See in this connection Annual Report for 1956, page 296.

under the reparations agreement and under the grant-in-aid to persons liable for tax and to those subscribing to Government bonds rose in 1957 by IL. 13.3 million. Credit from Government deposits for the granting of loans—mainly long-term credit from the Development budget—was expanded by IL. 27.8 million. The total amount of credit granted by the banking system to the public over the year was IL. 100 million.

This represents only part of the credit facilities received by the public. Long-term credit is granted to the public by the Government from the Development budget, without the intermediary of the banking institutions, either directly or through other financial institutions. Direct credit for agriculture is also extended by the Jewish Agency. Moreover, private finance corporations are developing, and there is a continued increase in suppliers' credit.

(a) *Rediscounts at the Bank of Israel*

The average level of bills rediscounted in 1957 by the Bank of Israel, including bills in foreign exchange, exceeded that of the previous year by IL. 9.4 million. The Bank of Israel did not expand credit uniformly. The amount of rediscounted bills fell by IL. 11.5 million between January and May. Only in September did it rise to the level of the end of 1956. From September and until the end of 1957, the amount of rediscounts rose by a further IL. 16 million. This type of credit was extended in particular to national institutions and to corporations in need of substantial credit to finance imports of raw materials and fuel. Bills received by exporters from clients abroad were also rediscounted by the Bank. The outstanding balance of bills rediscounted increased between the end of 1956 and the end of 1957 by IL. 16.5 million, compared with IL. 19.4 million over 1956.

(b) *Credit from the means of banking institutions*

The average level of credit extended to the public from the means of the banking institutions exceeded the 1956 level by IL. 34.7 million. The volume of credit rose over all the months of the year, with the exception of April and December. In December 1956, credit was heavily contracted by banking institutions. As the credit volume during this month had been very low, the expansion of bank accommodation to the public from the means of banking institutions between the end of 1956 and the end of 1957 exceeded the increase in its average level. It amounted to IL. 42.3 million or 16 per cent—a rate of increase substantially higher than that for the years 1954–1956.

Until 1956, the implementation of the Bank of Israel's quantitative credit policy was effected largely through the directions regulating the volume of credit. According to these regulations, a banking institution was not authorized to grant credit over and above that extended by it on a given date, except in special cases approved by the Bank of Israel. In 1957, the Bank placed more emphasis on the liquidity regulations. Even by the end of 1956, banking institutions were authorized to expand credit above the volume ceiling fixed, provided that their

liquidity rate exceeded 50 per cent. In May 1957, this rate was reduced to 45 per cent and in September to 40 per cent. However, such additional credit was only granted upon approval by the Bank of Israel, and only for purposes considered as high priorities in the light of the national economy. In view of the expansion of credit granted to the Government by the Bank of Israel, and the tendency of the public to shift from cash to deposits in general, and to time deposits in particular, the large amount of liquid assets flowing to the banking institutions rendered possible a considerable expansion of credit.

TABLE XIV-9

*Credit extended to the Public by the Banking System, 1953-1957*

(millions of IL.)

*End of period*

	<i>From the means of</i>		<i>Total bank credit (1)+(2)</i>	<i>Against special Government deposits (4)</i>	<i>From Government deposits earmarked for loans (5)</i>	<i>Total credit to the public (3) to (5)</i>
	<i>Bank of Israel (1)</i>	<i>Banking institutions (2)</i>				
1953*	—	204.5	204.5	7.0	47.7	259.2
1954	—	231.4	231.4	22.8	69.3	323.5
1955	15.7	240.1	255.8	38.6	104.3	398.7
1956	35.1	264.1	299.2	46.8	134.1	480.1
1957	51.6	306.4	358.0	60.1	161.9	580.0
1957 January	32.7	271.2	303.9	48.5	136.5	488.9
February	26.1	271.4	297.5	51.6	140.8	489.9
March	22.4	284.7	307.1	59.5	143.8	510.4
April	24.0	284.4	308.4	58.9	145.7	513.0
May	23.6	291.0	314.6	57.4	147.7	519.7
June	25.4	292.9	318.3	57.9	148.5	524.7
July	24.4	295.8	320.2	57.9	149.7	527.8
August	28.2	301.5	329.7	58.0	149.3	537.0
September	35.6	302.5	338.1	59.2	151.9	549.2
October	37.7	305.3	343.0	56.0	155.3	554.3
November	47.9	307.7	355.6	55.5	157.9	569.0
December	51.6	306.4	358.0	60.1	161.9	580.0

SOURCE: Bank of Israel.

\* See note (a) to Table XIV-5.

(c) *Credit to the public from Government deposits*

In 1957, short-term credit given by banking institutions against Government deposits to persons assessed for tax, to importers within the framework of reparations and the U.S. grant-in-aid, as well as to buyers of Government bonds was expanded by IL.13.3 million or 28.4 per cent. The expansion of this type of credit was larger than in the preceding years.

Most of the additional credit, amounting to IL. 9.5 million, was granted to persons indebted to the Government for imports under the reparations agreement and the grant-in-aid. The increase in indebtedness for deferred income tax, customs duties and purchase tax, represented IL. 6.5 million. Loans given to buyers of Government bonds payable in instalments declined by IL. 2.7 million.

Credit from the Development budget given through the banking institutions is mainly long-term credit for investment financing. It rose by IL. 27.8 million or 20.7 per cent, a considerably lower rate of increase than that for 1954–56.

(d) *The destination of credit*

The distribution of credit from the means of the banking institutions between the economic sectors at the end of 1957 did not differ much from that at the end of 1956. The share of industry fell from 26 per cent to 25.2 per cent, and that of agriculture from 28.2 per cent to 26.6 per cent. There was an increase in the share of the credit granted to Government and public services as well as in that given to settlement institutions.

From the accommodation granted from the means of banking institutions, not requiring the approval of the Bank of Israel, agriculture was given about 17 per cent and industry about 30 per cent. Of the credit granted under the exemption from liquidity regulations, the share of agriculture was 66 per cent against 71 per cent at the end of 1956. The share of industry represented 12 per cent against 10 per cent in the same period. Owing to the fact that most of the credit granted outside the liquidity regulations was allocated to agriculture, and only a smaller part was allotted to industry, the part received by agriculture from banking institutions was equal to that received by industry—26 per cent. The exemptions from liquidity regulations also increased the share of settlement institutions, from 1.4 to 1.9 per cent. The share of credit granted to other sectors fell slightly or remained virtually unchanged.

Bills of public corporations rediscounted at the Bank of Israel represented 40 per cent of the total bills rediscounted, against 28 per cent in 1956. Most of this credit went to Government corporations, such as the Delek Israel Fuel Corporation Ltd. which increased its stocks, and to the Reparations Corporation which was in need of large-scale intermediate finance. The amounts of bills rediscounted to agriculture and industry remained virtually unchanged in 1957.

(e) *The interest rate*

The new Interest Law 5717—1957 came into force on March 1, 1957. It repealed the Ottoman Interest Law, fixing the maximum legal interest rate on loans at 9 per cent.

According to the new Interest Law, the Minister of Finance may, after consultation with the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, prescribe the maximum rate of interest which a lender shall be permitted to receive from the borrower. Contrary to the former

TABLE XIV-10  
*Credit by the Banking System,<sup>a</sup> by Source and Destination, 1955-1957*  
 (millions of IL. and percentages)

End of period Destination	From the means of banking institutions						From the means of the Bank of Israel		Total credit by the banking system	
	Under liquidity regulations		Outside liquidity regulations		Total		1956	1957	1956	1957
	1956	1957	1956	1957	1956	1957				
	<i>Million IL.</i>									
Agriculture	40.7	47.9	35.7	43.8	76.4	91.7	8.9	10.6	85.3	102.3
Industry	73.4	85.8	5.0	7.9	78.4	93.7	14.4	14.2	92.8	107.9
Building construction	19.0	23.9	2.4	2.8	21.4	26.7	—	0.7	21.4	27.4
Commerce	35.7	43.0	0.2	0.4	35.9	43.4	0.8	0.6	36.7	44.0
Local authorities	2.1	4.7	2.4	1.3	4.5	6.0	—	—	4.5	6.0
Public utilities	3.1	4.5	0.3	2.0	3.4	6.5	9.9	20.8	13.3	27.3
Credit and financing institutions	8.7	7.0	1.8	2.3	10.5	9.3	—	—	10.5	9.3
Settlement institutions	1.1	4.0	1.2	2.6	2.3	6.6	0.8	4.4	3.1	11.0
Services	15.2	15.2	0.6	1.6	15.8	16.8	0.3	0.3	16.1	17.1
Miscellaneous	44.0	51.6	0.9	1.3	44.9	52.9	—	—	44.9	52.9
<i>Total</i>	243.0	287.6	50.5	66.0	293.5	353.6	35.1	51.6	328.6	405.2
	<i>Percentages</i>									
Agriculture	16.7	16.7	70.7	66.4	26.0	25.9	25.4	20.5	26.0	25.2
Industry	30.2	29.8	9.9	12.0	26.7	26.5	41.0	27.5	28.2	26.6
Building construction	7.8	8.3	4.7	4.2	7.3	7.5	—	1.4	6.5	6.8
Commerce	14.7	15.0	0.4	0.6	12.2	12.3	2.3	1.2	11.2	10.9
Local authorities	0.9	1.6	4.7	2.0	1.5	1.7	—	—	1.4	1.5
Public utilities	1.3	1.6	0.6	3.0	1.2	1.8	28.2	40.3	4.0	6.7
Credit and financial institutions	3.6	2.4	3.6	3.5	3.6	2.6	—	—	3.2	2.3
Settlement institutions	0.5	1.4	2.4	3.9	0.8	1.9	2.3	8.5	0.9	2.7
Services	6.2	5.3	1.2	2.4	5.4	4.8	0.8	0.6	4.9	4.2
Miscellaneous	18.1	17.9	1.8	2.0	15.3	15.0	—	—	13.7	13.1
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Excluding the Israel Bank of Agriculture.

Ottoman Interest Law, the definition of interest in the new law includes "any consideration payable in respect of a loan . . . including a commission, or discount . . ." The new law applies to all lenders and borrowers.

In accordance with this law, the Minister of Finance issued on March 1 an order (Order Fixing the Maximum Rate of Interest, 5717—1957) whereby the maximum rate of interest on ordinary loans shall be 11 per cent per annum, on loans for agricultural and industrial purposes 10 per cent, and on loans linked to the dollar rate of exchange or the consumers' price index to be 6½ per cent.

Extensive deliberations of the Government and the Finance Committee of the Knesset preceded the drafting of both the Interest Law and the Interest Order. The law is based on the assumption that, under conditions of great credit demand for working capital and investment, it is necessary to limit legally the maximum rate of interest, as under free market conditions a higher interest rate than desirable for the development of the economy would have developed.

The new law contributed to a fall in the interest rate of a number of financial and banking institutions which used to charge interest and commission at higher rates, frequently exceeding 18 per cent. However, as the major part of credit was granted by banking institutions whose interest rate rarely exceeded 9 per cent, it may be assumed that almost no change occurred in the average rate of interest of the banking system.

Following the coming into force of the Interest Order, further adjustments were made in the interest rates of the banking system. Interest on loans approved by the Bank of Israel was fixed at 9 per cent. Following the coming into force of the Interest Law, the rediscount rate of the Bank of Israel was decreased from 8½ per cent to 8 per cent for bills discounted in Israel currency. The Bank of Israel charged 6 per cent instead of 5½ per cent and banking institutions were allowed to add 2½ per cent commission. Interest on bills rediscounted in foreign exchange remained unchanged at 5 per cent. The Bank of Israel charged 3 per cent and banking institutions added a 2 per cent commission.

In 1957, interest payable on Government loans from the Development budget, mainly long-term loans, was 3½–7½ per cent per annum. Up to 70 per cent of the amount borrowed is linked to the dollar exchange rate or to the consumers' price index, at the client's option. Until the end of 1957, most borrowers preferred the dollar link. Interest carried by Government and government-guaranteed bonds issued in 1957, which are also linked to the dollar exchange rate or to the consumers' price index, was 6–6½ per cent. This is the same rate as that carried by those securities which were issued in 1956.

In 1957, too, credit was granted outside the framework of the banking system at rates exceeding the legal rate of interest. Interest on bills of public institutions, considered by the market as low risks, was 15–18 per cent during most of the year. Interest on bills of small borrowers ranged between 24–30 per cent in view of the greater risk involved.

The interest on deposits was raised in the latter part of 1956 by nearly all

banking institutions and remained almost unchanged during 1957. It moved up to 6 per cent according to the type of deposit, the due dates and the withdrawal conditions.

## 9. THE STRUCTURE OF ASSETS AND LIABILITIES OF THE BANKING INSTITUTIONS

In 1957, the scope of operations of banking institutions widened considerably and was reflected by the increase in their assets and liabilities, which rose by IL. 174 million or 17.7 per cent. Of this increase, contingent liabilities and guarantees represented a rise of IL. 25 million; they appear on both sides of the balance sheet and relate to guarantees and inter-bank accounts. The increase in the other items of assets and liabilities was about IL. 150 million or over 20 per cent (see Table XIV-11).

All items of assets and liabilities showed an increase over the year, with the exception of balances in transit and other accounts. The largest absolute increase naturally occurred in the large items, such as cash held and balances kept in the Bank of Israel, as well as in loans on the assets and deposits on the liabilities sides. In view of the fact that the rate of increase was not uniform for all items, there were changes in their relative weights.

Among the assets of banking institutions, there was an increase in the share of cash held and balances kept in the Bank of Israel. The Bank of Israel pays interest at the rate of 2 per cent on 75 per cent of minimum balances that banking institutions are required to hold in it. Interest at 2½ per cent is allowed on excess deposits and 3-4 per cent on time deposits, according to due dates. Against the rise in the share of balances held in the Bank of Israel, there was a fall in net balances held in other banking institutions (balances in transit). There was a decline in foreign exchange assets including notes and coin, as well as in balances kept in banks abroad and in foreign securities. There was also a fall in the share of the Israel securities portfolio—Government bonds as well as other securities—within the total assets held by banking institutions. The share of loans within the assets of banking institutions remained unchanged; but the share of loans given to the Government rose relative to other loans.

On the liabilities side, there was an increase in the share of time deposits by the public as well as in other deposits, except demand deposits. The share of liabilities to the rest of the world also rose, although there was a fall in the share of assets held abroad. As a result of the rapid increase in all items, there was a minor decline in the share of paid-up capital, in demand deposits and in Government deposits.

Summarizing the structure of assets and liabilities of the banking institutions, it would seem that the foreign exchange position of the institutions somewhat deteriorated, as the rate of increase in their foreign exchange liabilities exceeded

TABLE XIV-11  
*Assets and Liabilities of the Banking Institutions*  
 (millions of IL. and percentages)

	<i>Million IL.</i>			<i>Percentages</i>		
	1955	1956	1957	1955	1956	1957
<i>Assets</i>						
Cash and balances with the Bank of Israel	97.9	136.0	174.8	15.8	18.9	20.1
Loans to the public	240.1	264.1	306.4	38.8	36.7	35.2
Loans to the Government	20.2	13.9	29.7	3.3	1.9	3.4
Loans to the public from Government deposits	142.9	180.9	222.0	23.1	25.2	25.6
Foreign exchange	54.8	48.5	54.6	8.9	6.7	6.3
Securities	31.6	46.8	50.0	5.1	6.5	5.8
Immovable assets	7.7	10.9	13.8	1.2	1.5	1.6
Net balances with banking institutions <sup>a</sup>	23.4	18.5	17.1	3.8	2.6	2.0
<i>Total</i>	618.6	719.6	868.4	100.0	100.0	100.0
<i>Liabilities</i>						
Demand deposits	247.2	289.0	345.3	40.0	40.2	39.8
Other deposits in Israel currency	133.2	153.1	191.7	21.5	21.3	22.1
Foreign exchange commitments	33.1	20.8	34.9	5.3	2.9	4.0
Government deposits <sup>b</sup>	156.8	200.6	238.6	25.4	27.9	27.4
Capital	32.0	37.0	39.9	5.2	5.1	4.6
Other accounts (net)	16.3	19.1	18.0	2.6	2.6	2.1
<i>Total</i>	618.6	719.6	868.4	100.0	100.0	100.0
<i>Contingent liabilities and guarantees</i>						
Balances of and held for banking institutions	38.8	37.9	29.9			
Clients' guarantees	157.9	182.5	195.1			
Other accounts	29.0	42.5	63.0			
<i>Total</i>	225.7	262.9	288.0			
<i>Grand total</i>	844.3	982.5	1,156.4			

SOURCE: Bank of Israel.

<sup>a</sup> Balances in transit.

<sup>b</sup> Including Government deposits earmarked for loans to the public.

that of their assets. However, there was an increase in the liquidity rate of banking institutions in Israel currency, as the rate of increase in cash and in balances held in the Bank of Israel exceeded that of deposits, in particular of demand deposits.

## 10. THE LIQUIDITY OF BANKING INSTITUTIONS

### (a) *The liquidity of banking institutions in Israel currency*

In 1957, the total of deposits against which liquid assets are required to be held rose by IL. 61.9 million or 18.6 per cent. The total of liquid assets in Israel currency, i.e. cash held, balances kept in the Bank of Israel and balances in transit between banking institutions,<sup>1</sup> rose over this period by IL. 25.3 million, which also represented an increase of 18.6 per cent. As the rate of increase was the same for these two amounts, no change occurred in the liquidity rate which stood at 40.9 per cent at the end both of 1956 and of 1957 (see Table XIV-12).

In March, July and October, there was a decline in liquid assets and in the liquidity ratio. This was due mainly to the reduction in March of the balances of foreign exchange held in the Bank of Israel and, to a minor extent, to the contraction of credit by the Bank. Credit extended to the Government by the Bank of Israel declined in July by an amount exceeding the increase in outstanding balances of foreign exchange held by it. In October, exchange reserves held by the Bank of Israel fell considerably and, as a result, the liquid assets of banking institutions declined by IL. 8 million. However, there was but a minor decline in the liquidity ratio, in view of the fall in deposits subject to liquidity regulations.

Almost the whole increase in liquid assets was in balances kept in the Bank of Israel. Minimum balances to be kept by banking institutions in the Bank of Israel, representing 15 per cent of deposits falling under the liquidity regulations, rose by about IL. 11 million, while excess balances increased by about IL. 13 million.

The main increase in the liquid assets of the banking institutions was the result of the continued credit expansion by the Bank of Israel. This was mainly in the form of credit to the Government, and to a lesser extent in the form of rediscounts (see Table XIV-13). The rise in deposits within the total money supply was yet another factor. During the period under review, the supply of money

<sup>1</sup> According to the liquidity regulations, all balances held in other banking institutions are defined as liquid assets. However, even if these balances are considered as liquid assets with respect to an individual banking institution, they are not considered as liquid in respect of the banking system as a whole. The reason for this is that each of these assets of one banking institution represents at the same time a liability of some other banking institution which is required by law to hold liquid assets at a rate of 100 per cent against it. Therefore, deposits of banking institutions have been excluded from both the assets and the liabilities sides in the discussion on the liquidity position of banking institutions as a whole.

TABLE XIV-12

*The Liquidity of Banking Institutions, in Israel Currency, 1955-1957**(millions of IL.)**End of period*

<i>Period</i>	<i>Liquid balances with the Bank of Israel</i>			<i>Cash held by banks</i>	<i>Balances in transit between banking institutions</i>	<i>Total liquid assets (3) to (5)</i>	<i>Deposits against which assets in Israel currency must be held</i>	<i>Liquidity ratio (6) : (7) x 100</i>
	<i>Obligatory</i>	<i>Excess</i>	<i>Total (1) + (2)</i>					
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>					
1955	43.1	38.6	81.7	11.1	26.1	118.9	300.2	39.6
1956	47.1	59.4	106.5	11.6	17.9	136.0	332.3	40.9
1957	57.8	72.3	130.1	11.9	19.3	161.3	394.2	40.9
1957 January	49.6	61.3	110.9	11.3	15.2	137.4	343.9	40.0
February	51.3	60.7	112.0	12.1	17.9	142.0	349.3	40.7
March	52.7	54.0	106.7	12.7	20.3	139.7	355.2	39.3
April	53.0	63.4	116.4	13.5	19.9	149.8	368.6	40.6
May	55.0	64.3	119.3	11.7	18.3	149.3	375.9	39.7
June	56.1	65.2	121.3	12.6	22.8	156.7	380.3	41.2
July	57.7	58.4	116.1	12.9	19.4	148.4	384.0	38.6
August	56.9	70.5	127.4	13.0	19.8	160.2	386.4	41.5
September	57.9	63.5	121.4	14.5	28.5	164.4	392.5	41.9
October	58.7	56.8	115.5	12.5	23.7	151.7	383.4	39.6
November	57.5	59.7	117.2	12.6	21.0	150.8	385.5	39.1
December	57.8	72.3	130.1	11.9	19.3	161.3	394.2	40.9

SOURCE: Bank of Israel.

increased to about IL. 60 million; had the part of cash held remained the same over 1957 as at the end of 1956—i.e. about 44 per cent—withdrawals of liquid assets from the banking institutions by the public would have amounted to about IL. 26 million. However, there was actually a fall in the amount of cash held within the total money supply. The ratio stood at only 40 per cent at the end of 1957, while cash held by the public rose by less than IL. 3 million. It may, therefore, be said that the increase in the supply of money led to an automatic increase in the currency in circulation. This means a decline in liquid assets of banking institutions by IL. 26 million. On the other hand, this was offset by the public's operations which reduced the share of cash within the total money supply. An amount of IL. 23 million was redeposited by the public with the banking institutions, making for an increase in their liquid assets by this amount.

TABLE XIV-13  
*The Source of Liquid Assets, 1955-1957*  
 (millions of IL.)

End of period	Credit by the Bank of Israel						Less			
	To the public	To the Government	To banking institutions	Net balances of foreign exchange	Balances in transit	Total (1) to (5)	Cash held by the public	Deposits of banking institutions with the Bank of Israel not subject to liquidity regulations <sup>a</sup>	Total (7)+(8)	Liquid assets (6)-(9)
Period	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1955	15.7	171.1	0.1	83.5	26.1	296.5	172.5	5.1	177.6	118.9
1956	35.1	236.7	—	92.4	17.9	382.1	228.3	17.9	246.2	135.9
1957	51.6	271.3	—	82.8	19.3	425.0	230.9	32.8	263.7	161.3
1957 January	32.7	241.0	—	93.9	15.2	382.8	227.5	17.9	245.4	137.4
February	26.1	250.2	—	99.3	17.9	393.5	229.1	22.5	251.6	141.9
March	22.4	229.9	23.0	95.6	20.3	391.2	227.4	24.1	251.5	139.7
April	24.0	241.7	13.0	104.5	19.9	403.1	229.6	23.6	253.2	149.9
May	23.6	242.0	5.0	113.8	18.3	402.7	227.9	25.5	253.4	149.3
June	25.4	256.9	—	104.9	22.8	410.0	229.3	24.0	253.3	156.7
July	24.4	250.9	—	109.7	19.4	404.4	228.2	27.8	256.0	148.4
August	28.2	248.2	—	116.9	19.8	413.1	228.5	24.4	252.9	160.2
September	35.6	253.6	—	110.6	28.5	428.3	235.8	28.1	263.9	164.4
October	37.7	263.9	—	91.9	23.7	417.2	234.8	30.7	265.5	151.7
November	47.9	268.3	—	82.6	21.0	419.8	237.0	32.1	269.1	150.7
December	51.6	271.3	—	82.8	19.3	425.0	230.9	32.8	263.7	161.3

<sup>a</sup> Deposits deposited under saving schemes deposits in connection with letters of credit and deposits held in foreign exchange.

(b) *The liquidity regulations*

In December 1957, new directions concerning liquid assets were issued by the Bank of Israel. They repealed the former directions which over seven years had been continuously amended and which had consequently become very complex.

The new directions distinguish between liquid assets in respect of deposits held in Israel currency and in foreign currency.

For the purpose of these directions, liquid assets in Israel currency mean:

1. Deposits with the Bank of Israel;
2. Israel currency and gold and silver bars;
3. Demand deposits with banking institutions in Israel;
4. Treasury bills;

Liquid assets in foreign currency mean:

1. Foreign exchange;
2. Foreign currency deposits held in the Bank of Israel or in any other banking institution;
3. Investments in foreign securities;
4. Loans in foreign currency approved by the Governor of the Bank of Israel.

The liquidity rates prescribed for deposits in Israel currency are as follows:

- |   |              |
|---|--------------|
| 1. Deposits of banking institutions   | 100 per cent |
| 2. Deposits for a period not exceeding 18 months  | 58 per cent  |
| 3. Government deposits or deposits of other institutions in connection with the granting of loans, less that part of the deposit as is equal to the outstanding balance of the loan | 90 per cent  |

Banking institutions are required to hold demand deposits with the Bank of Israel to an amount of not less than 15 per cent of their total deposits falling under liquidity regulations. As a general rule, the Bank of Israel authorizes deduction of different types of loans from the liquid assets that a banking institution is required to hold, provided that the amount of such loans shall not exceed 20 per cent of the deposits liable to a 58 per cent liquidity rate. This means in practice that, through exemptions from these regulations, the average liquidity ratio of banking institutions may fall to 38 per cent.

At all times, a banking institution must hold liquid assets at the rate of 100 per cent against every liability in foreign currency. A banking institutions whose liquid assets in foreign currency exceed its liabilities in foreign currency may ask that its excess balances in foreign currency be considered as liquid assets in respect of deposits in Israel currency. In this case, the banking institution must maintain a liquidity rate of 68 per cent instead of 58 per cent for deposits in Israel currency for a period not exceeding 18 months.

The main differences between the former directions concerning liquid assets<sup>1</sup>

<sup>1</sup> For further details see the Annual Report for 1955, page 176.

and the new directions may be summarized as follows: A distinction has been made between liquidity rates in Israel currency and in foreign currency. Furthermore, liquidity rates graded according to the amount of deposits for specified periods have now been replaced by uniform liquidity rates. 3% Government bonds are no longer considered to be liquid assets. A liquidity rate of 100 per cent has been fixed for deposits of credit cooperative societies; this is the same rate that is applicable to banks. According to the former directions, the liquidity rate for credit cooperative societies was 60 per cent.

There is no substantial change in the new directions for the actual liquidity rates banking institutions have to maintain. These rates have been based to a great extent on those prevailing in practice in the latter half of 1957. The new regulations are, furthermore, likely to encourage banking institutions to increase the amount of their deposits in future, as this will permit them to expand credit. It should, however, be borne in mind that the directions stabilizing the volume of credit have remained in force. They are intended to be a bulwark against undue credit expansion and to channel additional credit to priority purposes.

## 11. THE DEVELOPMENT OF BANKING INSTITUTIONS

In Israel, banking institutions are defined as institutions whose liabilities include demand deposits which may be withdrawn by cheque. This definition included commercial banks and credit cooperative societies.<sup>1</sup>

The tendency of banking institutions to merge was well in evidence in 1957. The associations affiliated to the centre of the "Kupot Milve" (workers' loan funds)—the Audit Union of the Cooperative Centre Ltd.—merged with the Workers' Bank Ltd. One credit cooperative society merged with the Bank Leumi Le-Israel, B.M. Two other societies, Halvaa Vehisachon, Hadar, and the Loan Fund of Immigrants from Bessarabia, ceased to operate as banking institutions. The Halvaa Vehisachon Mutual Credit Cooperative Society Ltd., Kfar Saba, which could not discharge its liabilities to depositors, is being wound up.

As a result the number of cooperative societies fell from 93 to 59, and the number of their branch offices declined by 66. On the whole, the number of bank offices rose from 202 to 277. The number of new branch offices of banking institutions was 9.

This tendency to merge was due to the following causes:

(a) Hevrat Haovdim (the Workers' Society Ltd., which is the holding company of the Histadrut) decided to combine the "Kupot Milve" institutions with the Workers' Bank Ltd. Actually, close contacts had existed among them even before the merger.

(b) It became evident that a number of credit cooperative societies, mainly the smaller and relatively new societies, found it difficult to establish themselves

<sup>1</sup> See Annual Report for 1955, page 169.

TABLE XIV-14

*Banking Institutions: Head Offices and Branch Offices*

<i>End of period</i>	1954	1955	1956	1957
<b>The 3 large banks and their 3 affiliates</b>				
Head offices	6	6	6	6
Branch offices	98	114	125	200
<i>Total</i>	104	120	131	206
<b>Other banks</b>				
Head offices	18	19	21	21
Branch offices	37	42	50	50
<i>Total</i>	55	61	71	71
<b>Credit Co-operative Societies</b>				
Head offices	93	94	93	59
Branch offices	64	74	79	47
<i>Total</i>	157	168	172	106
<b>All banking institutions</b>				
Head offices	117	119	120	86
Branch offices	199	230	254	297
<i>Total</i>	316	349	374	383

as independent banking institutions and their position deteriorated in view of the increase in the expenditure of banking institutions. The larger banks, which had adopted a policy of opening new branch offices, preferred to buy the societies and to acquire thereby ready offices and an established clientele. In certain cases, the Bank of Israel assisted the smaller credit cooperative societies in their efforts to merge with other banking institutions.

At the end of 1957, the major share of bank business in Israel—65 per cent of deposits and about 56 per cent of the credit extended—was concentrated in three large banks: the Bank Leumi LeIsrael B.M., the Palestine Discount Bank Ltd., and the Workers' Bank Ltd., and their affiliates. A holding company of the Bank Leumi LeIsrael B.M., holds 50 per cent of the shares of the Canada-Israel Central Bank Ltd. The Discount Bank is the largest shareholders of the Mercantile Bank of Israel Ltd.

The concentration of bank business increased over the year as a result of the mergers of part of the credit cooperative societies with other banking institutions, and also owing to other factors. There was an increase in the share of the three large banks and their affiliates in respect of liquid assets, credit and deposits, while the share of the credit cooperative societies declined (see Table XIV-15).

TABLE XIV-15

*Cash and Balances Held in the Bank of Israel, Credit and Deposits,  
by Banking Institutions, 1955-1957*

(Percentages)

	<i>The three large banks and their 3 affiliates</i>	<i>Other banks</i>	<i>Credit Co- operative societies</i>	<i>Total</i>
<b>Cash and balances held in the</b>				
<b>Bank of Israel</b>				
1955	61	22	17	100
1956	70	17	13	100
1957	71	20	9	100
<b>Loans to the public out of the means of banking institutions</b>				
1955	55	24	21	100
1956	50	30	20	100
1957	56	30	14	100
<b>Loans to the public from Government deposits</b>				
1955	47	40	13	100
1956	44	43	13	100
1957	47	44	9	100
<b>Demand deposits</b>				
1955	58	21	21	100
1956	60	19	21	100
1957	65	20	15	100
<b>Other deposits</b>				
1955	64	13	23	100
1956	67	11	22	100
1957	73	14	13	100